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India

Cotton and Products Update

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Report Highlights:
Despite an estimated record crop of 27.3 million 480 lb bales, Indian cotton arrivals continue to lag the 2010/11 pace due to the late onset of harvest and presumed holding of cotton by farmers hoping for higher market and support prices. Cotton prices have dropped significantly of late and arrivals are expected to accelerate during December. Demand from the textile sector remains weak as mills are covering only their immediate needs in the face of large yarn stocks and weak export demand. Indian cotton exporters have registered an estimated 1.6 million 480 bales for export, but competition from competing suppliers and uncertainty over demand and import policies in major markets are expected to lead to lower than previously forecast exports at 5.9 million 480 lb bales.

Post:
New Delhi

Commodities:
Cotton

Author Defined:

Production Unchanged, Arrivals Lag

The estimate of India's 2011/12 cotton crop is unchanged from the previous FAS Mumbai estimate at 35 million 170 kg bales (27.3 million 480 lb bales) which is slightly lower than the estimate adopted by USDA Washington analysts. In northern India, which accounts for nearly 15 percent of India's crop, damage from late season rains was minimal and the crop in Andhra Pradesh, India's third largest cotton producing state, appears to have largely recovered from early season concerns about the availability of seeds. As reported previously, late monsoon rains delayed planting and the subsequent onset of harvest by as much as four weeks in areas of western and central India. Weather conditions during October and November were generally good for the late maturing crop in the states of Gujarat and Maharashtra, India's largest and second largest cotton producing states respectively. Plant growth and development was aided by warmer than normal temperatures and adequate night-time humidity.

During recent field travel to Gujarat, cotton plants were still green and growing with good numbers of bolls. Over the past three to five years, many farmers in Gujarat have adopted the practice of "nipping" plants by pinching off the lead stem, thereby shortening the plant and sending more energy into boll production. When viewed from the road during crop estimation travel, the shorter plants can be deceiving, suggesting that plants are not developing adequately. However, closer field-level inspection of boll numbers and plant health suggest that the practice helps to support yields. By some estimates, farmers have rapidly adopted the practice which is applied to as much as 80 percent of the cotton crop in Gujarat and is spreading to other states.

Despite the anticipated record crop, cotton arrivals as of November 20 were 3.5 million 170 kg bales, well below the 2010/11 pace of 4.7 million bales. Late arrivals appear to be the result of three factors:

- The late onset of harvest.

- Farmers may also be holding cotton on farm in the hope that prices will rise as the marketing year progresses. As market information has become more widely available in recent years, farmers have become more likely to store cotton on farm in an effort to take advantage of higher prices. Higher incomes following record 2010/11 prices are also enabling farmers to delay the delivery of cotton. Farmers in areas of Gujarat were still delivering small amounts of 2010/11 crop cotton as recently as a few weeks ago.

- Some farmers may also be holding their cotton in the hope that the Government of India will raise the Minimum Support Price (MSP) for cotton. Currently, Indian cotton is reported to be the lowest-priced cotton among major exporters, but current prices for seed cotton are trading at Rs. 40-42 per kg (36-38 cents per pound), above MSP levels of Rs. 31-32 per kg (28-29 cents per pound). Consequently, some farm groups have suggested that the MSP should be increased. While an increase in the MSP seems unlikely, if implemented, an increase above a farm price that equates to a competitive export price could dramatically change the current export situation in India. If raised too high, a higher MSP would likely initiate procurement operations by the Cotton Corporation of India (CCI), the government-run corporation charged with procuring cotton at the support price. CCI would then become a direct exporter or sell to exporters and mills, potentially at a loss depending on market conditions.

Cotton prices have dropped in recent days, suggesting that the pace of arrivals is beginning to accelerate. Ex-gin spot prices, which are currently trading at Rs. 38-40 per kg (35-37 cents per pound) for popular medium staple varieties, have dropped 1-2 cents per pound this week and 4-5 cents per pound over the past month. Despite the expected acceleration in arrivals, there are reports of dry conditions in the Vidharbha area of Maharashtra and the Telangana area of Andhra Pradesh. Additionally, despite the good weather during October and November in Gujarat and parts of central India, concerns remain about the effects of late planting on shorter duration varieties, which may not benefit as much from good late season weather, and are more common in the central states of Maharashtra and Madhya Pradesh where irrigation is limited.

In many cotton growing areas, farmers typically pick cotton three to five times depending on weather, market conditions and winter season (known as the rabi season in India) crop planting intentions. When prices are high, farmers will work to improve their husbandry practices in an effort to coax a few more pickings from their plants. However, when prices are low (as they are now) farmers may be less inclined to expend additional resources in an effort to harvest a few more bolls of cotton or may replace their cotton crop with a short duration winter (rabi) crop. Declining prices, coupled with a late maturing crop, could result in fewer pickings as the harvest progresses over the next few weeks. As reported previously, the late harvest also makes subsequent pickings vulnerable to winds or other unseasonal weather conditions.

While India's Cotton Advisory Board estimated the crop at 35.6 million 170 kg bales on November 15, the slightly lower FAS Mumbai estimate of 35 million 170 kg bales reflects concerns about dryness in some areas, the potential for fewer pickings and the effects of late planting on shorter duration crops. Cotton area, while still a record, is reduced to 12.2 million hectares, in line with the latest Cotton Advisory Board estimate. Cotton area for 2010/11 has also been adjusted to reflect the Cotton Advisory Board estimate.

Mill Consumption Expected Lower

Demand for cotton from textile mills is reportedly slack as firms focus on covering their immediate needs with little focus on longer term buying. Mills have large inventories of yarn and few buyers. 2009/10 and 2010/11 consumption figures have been updated to reflect the latest preliminary estimates from the Office of the Textile Commissioner. The data indicate that consumption during 2010/11 was even higher than initially expected, suggesting that stocks of yarn, much of which were made with high-priced cotton during 2010/11 are weighing on mill inventories. Additionally, borrowing costs have escalated as banks impose more rigorous credit terms in the wake of 2010/11 losses prompted by the significant mid-year drop in cotton prices. Yarn demand in Bangladesh is reportedly weak, but China is buying some Indian yarn. Nevertheless, cotton yarn exports during October plummeted to 43 million kg, well below the monthly average of 70 million kg for the preceding six months.

Lower cotton prices should help to stimulate mill consumption, but with the holiday season already under way in Europe and North America, mills may not see an improvement in yarn demand for several months. There was a brief flurry of mill consumption and yarn exports during August and September as mills sought to take advantage of the Ministry of Commerce's Duty Entitlement Passbook Scheme (DEPB) program before it expired on September 30, 2011. The program enabled exporters of both yarn and cotton to earn credits based on a percentage of export earnings. The credits could then be sold to importers of any product who could use the credits to offset the cost of tariffs on imports. Products, including cotton and textiles, that were previously eligible for the DEPB program are now eligible for the Ministry of Finance's Duty Drawback program. The program provides rebates of one to five percent (subject to a per unit limit) on the FOB value of exports and is intended to offset manufacturing and business costs that are inherent in the manufacturing sector and incurred through import tariffs, excise and sales taxes on inputs, capital goods and other business expenditures. The Duty Drawback program appears to provide less of an incentive for textile exporters and is not expected to have a significant effect on textile exports under current market conditions.

2011/12 consumption is now expected to reach 24 million 170 kg bales (18.7 million 480 lb bales), down from the previous FAS Mumbai estimate of 19.9 million 480 lb bales and significantly lower than the USDA Washington estimate of 20.5 million 480 lb bales.

Exports Looking for a Home

Export registrations are reportedly approaching 2.0 million 170 kg bales (1.6 million 480 lb bales), largely on purchasing from China with smaller purchases from Bangladesh. **Comment:** Exporters must register their exports with the Directorate General of Foreign Trade before shipping. Consequently, export registrations do not necessarily lead to actual exports, but given the strict registration requirements, export registrations are thought to be an accurate proxy for eventual exports. **End Comment.** With Indian cotton selling at a discount to other origins and the devaluation of the rupee by nearly 20 percent against the dollar over the past few months from Rs. 44 per dollar to Rs. 52 per dollar, Indian cotton is a relative bargain. Nevertheless, an anticipated increase in tariffs in China on January 1, 2012, uncertainty over China's buying plans and competition from other suppliers all lend a degree of uncertainty to export prospects. Export registrations may slow around mid-December as exporters await greater clarity about tariff levels and interest from China. 2011/12 exports are now estimated at 7.5 million 170 kg bales (5.9 million 480 lb bales), down 500,000 170 kg bales from the previous FAS Mumbai estimate but higher than the current estimate adopted by USDA Washington analysts. Imports are now expected lower in light of reduced consumption by mills.

STATISTICAL TABLES:

Table 1: Commodity, Cotton (480 lb bales) PSD

Area in Thousand Hectares, and Other Figures in 480 lb. bales)

Cotton India	**2009/2010**		**2010/2011**		**2011/2012**	
	Market Year Begin: Aug 2009		**Market Year Begin: Aug 2010**		**Market Year Begin: Aug 2011**	
	USDA Official	**New Post**	**USDA Official**	**New Post**	**USDA Official**	**New Post**
Area Planted	0	0	0	0	0	0
Area Harvested	10,310	10,310	11,160	11,142	12,500	12,220
Beginning Stocks	8,919	8,919	5,999	5,922	6,249	5,723
Production	23,000	23,000	25,400	25,376	27,500	27,300
Imports	480	480	450	450	450	390
MY Imports from U.S.	0	0	0	0	0	0
Total Supply	32,399	32,399	31,849	31,748	34,199	33,413
Exports	6,550	6,550	5,100	5,100	5,250	5,900
Use	19,850	19,927	20,500	20,925	20,500	18,740
Loss	0	0	0	0	0	0
Total Dom. Cons.	19,850	19,927	20,500	20,925	20,500	18,740
Ending Stocks	5,999	5,922	6,249	5,723	8,449	8,773
Total Distribution	32,399	32,399	31,849	31,748	34,199	33,413
Stock to Use %	23	22	24	22	33	36
Yield	486.	486.	496.	496.	479.	486.
TS=TD		0		0		0